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Economic Intelligence Weekly

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ECONOMIC INTELLIGENCE WEEKLY

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China Seeks US Nuclear Plant

Peking has asked General Electric to prepare a proposal for the sale of a 650-megawatt nuclear powerplant to China. Although other US firms are interested in selling nuclear powerplants to China, GE is the first firm to hold serious conversations with Chinese technicians. The inspection issue, however, could prove to be an obstacle to the sale. Sales of powerplants and enriched uranium fuel require export licenses, which the United States has granted only when the buyer accepted internationally supervised on-site inspection of refueling operations. [redacted] 25X1

Peruvian Fishmeal Prospects Improve

Ocean conditions off Peru's coast continue to favor an excellent anchovy spawn in the season that begins next month. Prudent conservation policies, however, should cause Lima to restrict fishing tightly for at least another twelve months to rebuild depleted stocks. Fishmeal output and exports thus are not expected to recover until next fall. Peru traditionally supplies about three-fifths of world fishmeal exports. Before the anchovy crisis, Peru's annual fishmeal exports were averaging 1.8 million tons, the protein equivalent of some 2.7 million tons of soybean meal. [redacted] 25X1

US Refinery Profits Squeezed by New Indian Policy

In a policy reversal, the Indian Government will allow the EXXON- and CALTEX-owned refineries in India to operate at full capacity and to pay market prices in hard currency to their suppliers of crude oil outside India. New Delhi, however, has set price ceilings on domestic petroleum products that do not cover the cost of imported crude oil. While the new

policy could force the US-owned refineries to operate at a loss, they are not likely to shut down, since the companies make most of their profits on the crude oil they buy from their producing subsidiaries. [redacted] 25X1

Pakistan Resolves Longstanding Problems with Some US Firms

Islamabad has recently reached oral agreement with Esso Fertilizer, and possibly Hercules, for compensation for losses resulting from the May 1972 rupee devaluation, as called for in the initial contract. The Bhutto regime is considering compensation to the American Life Insurance Company, which was nationalized in 1972. Favorable treatment of US firms probably was intended in part to remove obstacles to discussions of foreign aid and debt issues that Bhutto was expected to raise during his summit with President Nixon, now rescheduled for 11 September. [redacted] 25X1

[redacted] 25X6

The Concorde in Trouble

The failure of buyers to place additional orders for the French-British SST Concorde at the Paris Air Show has led Concorde officials to consider reducing production to eight planes per year. The current schedule calls for one plane per month. Earlier this year, eight airlines withdrew options on 58 aircraft. Only nine firm orders – five for BOAC and four for Air France – have been received, while development costs have skyrocketed to $2.7 billion. Officials hope that most of the backsliders will return to the fold once the aircraft is flying commercially in 1975. [redacted] 25X1

The USSR Faces Higher Costs for Natural Gas Imports

Moscow, long under pressure from Iran to pay more for natural gas imports, is facing similar demands from Afghanistan in discussions that

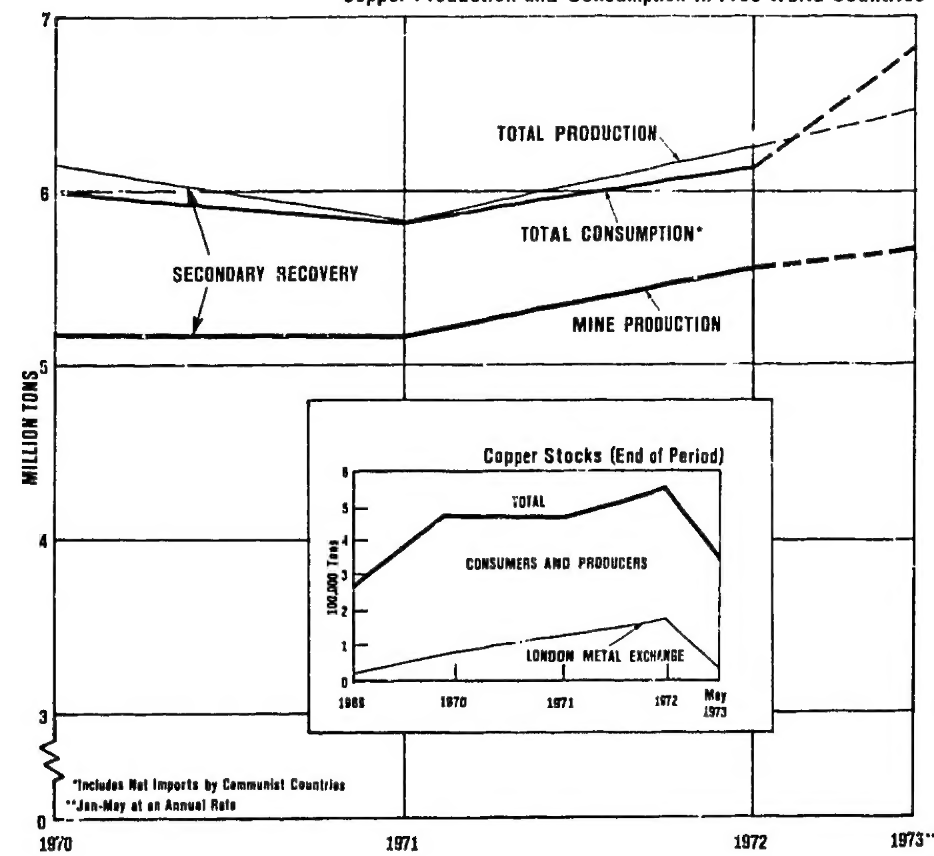
began on 14 July. The Soviets pay Tehran only 19 cents per thousand cubic feet for natural gas. [redacted] 25X1

25X1 [redacted] Tehran and Kabul are repaying Soviet credits with deliveries of natural gas, which the USSR uses in border areas and which permits larger Soviet gas exports to Western Europe. Increased domestic and export needs probably will force Moscow to concede some price increases, raising the cost of natural gas imports from last year's $79 million ($62 million from Iran and $17 million from Afghanistan). [redacted] 25X1

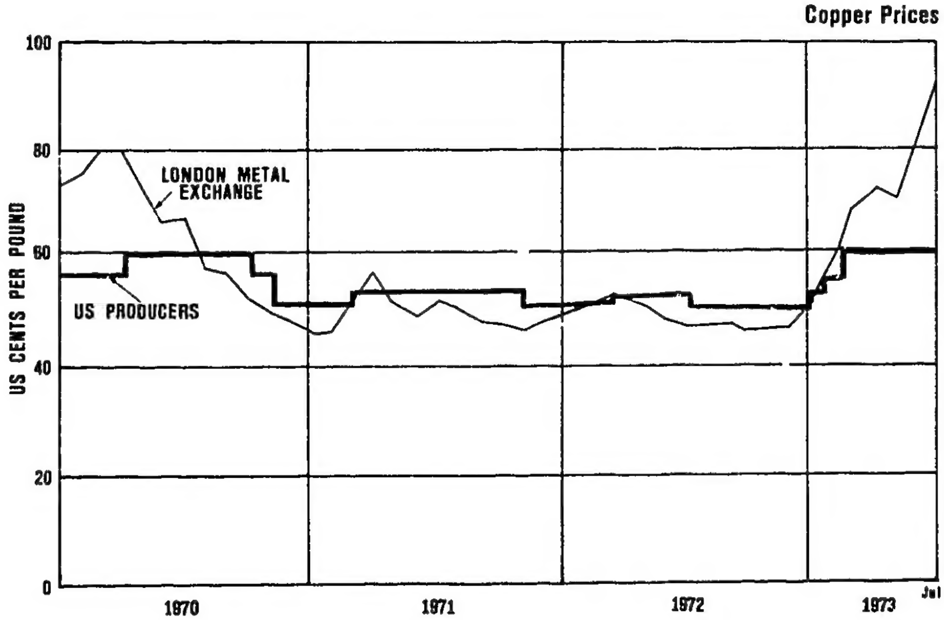
Brazil-Bolivia Pipeline Negotiations Near Completion

Brasilia and La Paz last week agreed in principle to construct the long-discussed $1 billion pipeline needed to exploit Bolivia's eastern gas fields, once foreign financing is found. This 1,750-mile pipeline would supply the Sao Paulo area with 240 million cubic feet of gas daily, or 1.8 trillion cubic feet over 20 years. Several Japanese firms are particularly eager to supply the pipe. [redacted] 25X1

Copper Production and Consumption in Free World Countries



Copper Prices



Articles

Copper Prices Rise to a Record High

Copper prices on the London Metal Exchange reached an all-time high of 97.5 cents per pound last week. Increased commodity speculation has been a major factor in this year's rapid price rise: a sharp increase in demand in importing countries and supply bottlenecks in Chile and Zambia also contributed. Copper consumption in developed countries jumped 10% in the first half of the year. Until May, Free World mine output had been running about 3% ahead of last year's, and higher prices had induced a 25% increase in scrap recovery. Since May, however, world production has fallen because of strikes in Chilean mines.

Surging demand and sluggish output have sharply reduced world copper stocks. Producer and consumer stocks have been drawn down by some 20%. Stocks held by the LME have also dropped from 192,000 tons late last year to only about 40,000 tons at present. Declining stock levels in turn have made the LME price even more volatile than usual, and prices have reacted sharply to any new supply interruptions or unusual demand. Prices rose some 10% in January, when the Zambia-Rhodesia border dispute and a Belgian refinery strike delayed copper shipments. Renewed monetary turmoil subsequently brought a much sharper rise in LME prices as speculators bought up copper as a hedge. LME cash quotes jumped by some 24% between February and April, while the US producer price rose from an average of 54 cents to 60.25 cents per pound. After stabilizing at about 70 cents a pound, LME copper prices rose further in June and July as Chile declared a **force majeure** on its copper shipments and China reportedly re-entered the LME market as a major purchaser. After increasing some 14% in June, prices skyrocketed a further 19% in the first two weeks of July.

Prices could rise still higher in coming months. Supply problems in Chile and perhaps Zambia are likely to continue, and severely reduced stocks afford little cushion for continued high demand. Record LME quotations have stimulated little substitution of other materials because prices have been frozen for most copper consumed in the United States, and currency revaluations have reduced the impact of higher LME prices on major copper consumers in Western Europe and Japan. As a result, most of the price pressure has fallen on copper consumers in the United Kingdom and other relatively weak currency areas and on those smaller US consumers that do not have an assured supply from major domestic producers.

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Worldwide Grain Developments

Poor Weather Clouds Soviet Grain Outlook

Harvesting problems have arisen in some important winter grain areas. Heavy rains and winds flattened (lodged) 2-1/2 million hectares of winter grain in the Ukraine (the equivalent of more than 6 million tons) as well as large amounts in Belorussia, Moldavia, and the North Caucasus. The lodged and overripe grain will be difficult to harvest without losses. Its milling quality is likely to be poor also. [redacted] 25X1

Soviets Turn Away from US Grain

According to Soviet trade officials who recently visited the United States, the USSR does not plan to buy any more US grain through 1975. The USSR is concerned over the heated reaction in the United States to Soviet grain purchases last year and will attempt to satisfy its grain import requirements from Canada, Argentina, and other unspecified sources. Soviet purchases of US grain in the first half of 1973 exceeded 5 million tons. [redacted] 25X1

[redacted] 25X6

India

India bought 300,000 tons of US wheat this week at $125 per ton, a price $20 per ton higher than it paid for the 360,000 tons bought last month. All of this wheat is for delivery by September. According to the Indian Ambassador, however, India now urgently needs an additional 4 million tons of wheat for delivery before late October. There is no chance of meeting this deadline; India may, however, obtain about 1 million tons by October. As a result, civil disturbances will almost certainly increase. [redacted] 25X1

Indonesia

Indonesia continues to seek suppliers for about 1.2 million tons of rice it wants to import during the next 12 months. Thus far, Jakarta has concluded contracts only with China for 50,000 tons and Taiwan for 20,000 tons. [redacted] 25X1

Africa

US foodgrain aid to drought areas has been increased by 100,000 tons for shipment by sea, bringing the US share to 250,000 tons, or a little less than half of the total donated. [redacted] 25X1

Other US Wheat Market Developments

Numerous foreign buyers are looking in the US market for wheat and corn, but few are willing to pay the rising prices. [redacted] 25X1 Actual purchases include Iraq for 75,000 tons and Tunisia for 40,000 tons of wheat, both with September delivery dates. [redacted] 25X1

Implications of the Recent Monetary Crisis

The recent turmoil in international money markets is the fourth in a series of crises that have come with increasing rapidity since December 1971, when the Smithsonian Agreement was concluded.

The monetary crises last year and this reflect in part not only continuing US balance-of-payments problems but also a change in the psychology of international currency traders. Money managers, representing the large multinational firms and commercial banks and some less developed countries including the oil producers, came to believe that further currency realignments were likely. Windfall profits could be made with limited risk, or the value of assets could be protected by shifting from dollars into the stronger currencies. To the extent that traders acted on their belief, it became a self-fulfilling prophecy.

The repeated money market crises have not produced the worldwide recession that many feared. Despite continuing international monetary instability and the growing weakness of the dollar, world trade is expanding rapidly. Indeed, it has accelerated in line with the current worldwide economic boom. Exporters and importers have taken steps to reduce their exchange risks through contract adjustments or dealings in the exchange market, but this has generally resulted in only a small increase in trading costs.

Continuing international monetary instability has, however, worsened the inflation problem in countries that are the object of speculative capital inflows. West Germany in particular has had to absorb massive currency inflows – first dollars and then guilders, French francs, and Danish crowns – and this has complicated Bonn's policy of slowing the growth in the money supply. Because of the anti-inflationary consequences of revaluation and subsequent monetary stability, Germany has generally been more willing to revalue than other countries.

The impact of the dollar's continuing devaluation on the trade balances of our major trading partners has so far been small. In part this is because most of their trade is not with the United States and because of lags in the adjustment process. The dollar's devaluation lowers the price of US exports in foreign markets, but this leads to an increase in US sales only after customers adjust their purchases to the new prices.

The current worldwide economic prosperity has also reduced and masked the impact of the continuing currency realignments. The US economy and the economies of most of our major trading partners are expanding rapidly – too rapidly in some cases. This has lessened concern about the potential impact of cheaper US goods.

These factors explain the lack of strong countermeasures so far against the devaluation. Only a handful of new foreign export subsidies and tax incentives have been introduced. Nevertheless, some Europeans, the French in particular, feel that the dollar has been driven down too far and that the United States has been given an unfair competitive advantage.

The United States, after an adjustment period, will benefit from the increased foreign demand for its exports, now made cheaper by devaluation. Investment in this country also has become more attractive to foreigners. Both of these factors will help create jobs and reduce unemployment in the United States. To a lesser extent the United Kingdom and Italy, whose currencies also have depreciated, will similarly benefit.

On the other hand, US imports are more expensive because of devaluation, and this contributes to domestic inflation. The price of oil imports in particular has increased because of successful contract renegotiation by the oil-producing countries as well as through the direct effects of the devaluation.

The price advantage gained by US agricultural and other raw material exports through devaluation, and what apparently has been a desire -- at least in Japan -- to convert unwanted dollars into commodities, has probably also played a role in the disruption of world commodity markets. Although the large grain purchases by the USSR were more significant, the resultant introduction of controls on US commodity exports has dampened US balance-of-payments prospects, intensified pressures for a further dollar devaluation, and undercut the long-held US advocacy of freer access to foreign agricultural markets.

Some of the advantages of the dollar depreciation to Washington are disadvantages for our trading partners. Although their trade position has been little damaged so far, in the longer term cheaper US goods and increased investment in the United States rather than in their domestic economies will mean more job opportunities in the United States while bringing significant adjustment problems for certain countries.

As a result, US trading partners probably will become increasingly agitated if international monetary instability and the weakness of the dollar continue. Since a downturn is inevitable, if only because of action by foreign governments to bridle the accompanying domestic inflation, a slowdown in their exports to the United States and an increase in their imports and foreign investment (because of the currency realignment) will further depress their domestic economies.

The growing concern of our trading partners will slow progress toward trade and monetary reform. The monetary situation has clearly helped Paris in its insistence that the multilateral trade talks take account of the advantages Washington may gain from a devalued dollar, and this could emerge as a very difficult problem in the final trade bargaining Progress toward international monetary reform in the ongoing discussions under the auspices of the International Monetary Fund already has been made more difficult by foreign concerns resulting from the dollar's decline. Difficulties in the economic negotiations will also complicate political and military negotiations between the United States and its allies. [redacted]

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DOMESTIC ECONOMIC INDICATORS

GNP* (Constant Market Prices)

	Latest Period (Quarter)	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier (Previous Quarter)
United States	73 I	1.9	5.3	7.9	7.9
Japan	73 I	3.6	9.8	16.0	15.2
West Germany	73 I	5.4	4.7	5.8	23.6
France	73 I	2.0	5.5	3.8	8.2
United Kingdom	73 I	1.5	3.2	7.1	6.2
Italy	73 I	0.8	3.1	5.2	3.4
Canada	73 I	2.9	6.3	8.0	12.1

INDUSTRIAL PRODUCTION*

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jun 73	0.2	5.5	9.8	8.1
Japan	May 73	2.7	9.4	19.4	23.3
West Germany	May 73	1.1	4.4	7.8	-4.3
France	May 73	4.2	7.9	10.8	10.7
United Kingdom	May 73	0.1	3.8	9.2	3.5
Italy	Feb 73	-3.0	-0.8	-1.0	-21.2
Canada	Apr 73	1.0	7.0	8.7	14.6

RETAIL SALES* (Current Prices)

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jun 73	-0.8	11.0	12.1	-6.1
Japan	Mar 73	4.0	12.9	24.8	45.2
West Germany	Mar 73	-5.7	9.1	5.9	14.2
France	Mar 73	4.1	6.3	7.0	6.7
United Kingdom	Mar 73	3.0	12.9	19.8	26.8
Italy	Jan 73	-8.3	8.1	11.9	3.3
Canada	Apr 73	2.5	12.1	14.6	30.6

WHOLESALE PRICES (Industrial)

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jun 73	1.0	5.0	7.7	14.8
Japan	Jun 73	1.3	4.1	13.6	11.4
West Germany	Jun 73	0.5	4.7	6.7	6.8
France	Apr 73	0.8	6.2	12.0	20.2
United Kingdom	Jun 73	1.0	6.7	6.2	3.7
Italy	Apr 73	1.1	6.4	12.1	18.7
Canada	Mar 73	2.3	6.6	12.3	27.3

CONSUMER PRICES

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	May 73	0.6	4.4	5.5	9.3
Japan	Apr 73	1.9	7.0	9.4	23.5
West Germany	Jun 73	0.7	6.2	7.9	8.5
France	May 73	0.9	6.0	7.2	8.9
United Kingdom	May 73	0.7	8.7	9.5	13.6
Italy	May 73	1.5	7.1	11.0	15.5
Canada	Jun 73	0.9	5.0	8.1	11.4

MONEY SUPPLY*

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Jun 73	1.2	7.8	7.4	10.3
Japan	Apr 73	3.8	19.9	34.0	48.9
West Germany	Apr 73	-0.6	12.2	9.5	6.9
France	Mar 73	0.8	12.5	10.0	-3.4
United Kingdom	Apr 73	2.2	12.2	13.1	19.1
Italy	Jan 73	3.7	23.4	27.0	63.6
Canada	May 73	2.3	14.1	17.5	20.3

MONEY-MARKET RATES

	Representative Rates	Percent Rate of Interest: Latest		12 Months Earlier	3 Months Earlier	1 Month Earlier
United States	Prime finance paper	Jul 13	8.13	4.75	6.75	7.50
Japan	Call money	Jul 6	7.25	4.25	5.88	6.63
West Germany	Interbank loans (3 months)	Jul 13	14.25	4.75	N.A.	13.50
France	Call money	Jul 6	9.00	3.75	7.25	7.63
United Kingdom	Local authority deposits	Jun 29	8.32	3.96	7.32	7.52
Canada	Finance paper	Jun 13	7.50	4.88	5.75	6.88
Euro-Dollars	Three-month deposits	Jul 13	9.75	5.69	7.88	8.75

*Seasonally Adjusted

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EXTERNAL ECONOMIC INDICATORS

EXPORT PRICES
(US $)

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	May 73	3.1	6.3	13.7	18.9
Japan	May 73	1.5	11.9	20.7	64.0
West Germany	Apr 73	0.9	10.9	13.0	64.5
France	Mar 73	6.9	12.8	20.6	70.4
United Kingdom	May 73	2.5	10.4	6.2	34.7
Italy	Feb 73	3.8	8.0	8.8	26.9
Canada	Mar 73	1.8	4.9	9.4	19.1

EXPORT PRICES
(National Currency)

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	May 73	3.1	6.3	13.7	18.9
Japan	May 73	1.3	0.9	4.8	13.5
West Germany	Apr 73	0.7	1.2	1.3	4.2
France	Mar 73	1.5	4.9	8.3	12.3
United Kingdom	May 73	0.6	8.4	9.6	15.3
Italy	Feb 73	2.7	4.7	6.6	19.8
Canada	Mar 73	1.8	3.6	9.3	20.4

IMPORT PRICES
(National Currency)

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	May 73	1.2	9.9	17.4	43.1
Japan	May 73	2.5	2.8	14.1	13.2
West Germany	Apr 73	1.3	0.3	7.2	5.3
France	Mar 73	1.9	2.5	0.4	-16.3
United Kingdom	May 73	3 5	11.1	28.1	38.8
Italy	Feb 73	3.5	6.4	9.3	23.2
Canada	Mar 73	3.4	4.0	6.2	18.4

OFFICIAL RESERVES

	Billion US $				
	Latest Period: End of		June 1970	1 Year Earlier	3 Months Earlier
United States	May 73	14.0	18.3	13.3	14.0
Japan	Jun 73	15.2	4.1	15.8	18.1
West Germany	May 73	32.2	8.8	19.9	29.5
France	Jun 73	12.3	4.4	9.4	11.2
United Kingdom	Jun 73	7.0	2.8	8.9	6.0
Italy	Apr 73	6.4	4.7	6.5	5.8
Canada	Jun 73	5.9	4.3	6.2	6.0

EXPORTS*
(f.o.b.)

	Latest Period	Million US $	Cumulative (Million US $)	1973	1972
United States	May 73	5,603	Jan-May	26,511	19,015
Japan	Jun 73	2,854	Jan-Jun	16,626	13,068
West Germany	May 73	5,740	Jan-May	24,827	18,721
France	Jun 73	3,135	Jan-Jun	17,002	12,821
United Kingdom	Jun 73	2,512	Jan-Jun	13,636	11,716
Italy	May 73	1,766	Jan-May	7,542	7,352
Canada	Apr 73	1,983	Jan-Apr	7,760	6,260

IMPORTS*
(f.o.b.)

	Latest Period	Million US $	Cumulative (Million US $)	1973	1972
United States	May 73	5,761	Jan-May	27,306	20,647
Japan	Jun 73	2,732	Jan-Jun	13,765	8,719
West Germany	May 73	4,362	Jan-May	19,370	15,245
France	Jun 73	3,038	Jan-Jun	16,370	12,371
United Kingdom	Jun 73	2,867	Jan-Jun	15,523	12,231
Italy	May 73	2,118	Jan-May	8,508	6,774
Canada	Apr 73	1,747	Jan-Apr	7,219	5,968

TRADE BALANCE*
(f.o.b./f.o.b.)

	Latest Period	Million US $	Cumulative (Million US $)	1973	1972
United States	May 73	-158	Jan-May	-795	-1,632
Japan	Jun 73	122	Jan-Jun	2,862	4,349
West Germany	May 73	1,378	Jan-May	5,457	3,475
France	Jun 73	97	Jan-Jun	632	449
United Kingdom	Jun 73	-356	Jan-Jun	-1,887	-515
Italy	May 73	-353	Jan-May	-966	578
Canada	Apr 73	236	Jan-Apr	541	292

EXCHANGE RATES (Spot Rate)
As of 13 Jul 73

	US $ Per Unit	Percent Change from Dec 66	18 Dec 71	19 Mar 73	6 Jul 73
Japan (Yen)	0.0038	36.79	16.23	-0.76	-1.15
West Germany (Deutsche Mark)	0.4201	67.10	35.39	18.64	-5.47
France (Franc)	0.2448	21.25	24.33	11.07	-5.41
United Kingdom (Pound Sterling)	2.5428	-8.88	-2.41	3.32	-0.48
Italy (Lira)	0.0017	6.81	-0.58	-3.39	-1.16
Canada (Dollar)	1.0015	8.58	0.37	0.38	0.05

TRADE-WEIGHTED EXCHANGE RATES
As of 13 Jul 73

	Percent Change from Dec 66	18 Dec 71	19 Mar 73	6 Jul 73
United States	-20.10	-10.50	-3.70	1.73
Japan	23.17	9.19	-2.86	-0.23
West Germany	32.89	15.83	10.77	-2.03
France	-8.43	4.75	2.30	-1.89
United Kingdom	-31.18	-17.11	-2.74	2.33
Italy	-21.77	-20.51	-13.82	3.02
Canada	4.12	-2.41	-0.74	0.58

*Seasonally Adjusted

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